COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

TESTIMONY OF DAVID B. DOSKOCIL

EXHIBIT FGE-DBD-1

D.T.E. 02-____

SUBMITTED ON BEHALF OF
FITCHBURG GAS AND ELECTRIC LIGHT COMPANY

December 23, 2002

Q. Please state your name and business address.

A. My name is David B. Doskocil. My business address is 6 Liberty Lane West, Hampton, New Hampshire 03842.

Q. What is your educational background?

A. I have a Bachelors of Science in Environmental Science from the University of New Hampshire and a Masters Degree in Business Administration from the Whittemore School of Business and Economics at the University of New Hampshire.

Q. For whom do you work and in what capacity?

A. I am Team Leader for the Energy Contracts Group at Unitil Service Corp. ("USC"), providing services for all of the Unitil companies. I am presenting testimony today on behalf of Fitchburg Gas and Electric Light Company ("FG&E").

Q. Please describe your business background.

A. I have been the Team Leader for the Energy Contracts Group at USC for over two years. In this position I am responsible for managing and administering our natural gas and electric contracts. Previous to this position I worked for eight years for Coastal Gas Marketing, the natural gas marketing affiliate of Coastal Corporation, a fully diversified oil and gas corporation. In that position, I was the

Director of Gas and Electric Marketing in the U.S. Northeast. Prior to that, I spent two years at Energy North Natural Gas Company's ("Energy North") gas supply department in the position of Gas Supply Manager, and previous to that, two years as a Program Manager in the Governor's Energy Office in the State of New Hampshire.

Q. Have you previously testified before the Department of Telecommunications and Energy ("the Department") or another regulatory agency?

A. Yes, I have. Most recently I testified before the Department in D. T. E. 02-55, FG&E's request for approval of a firm transportation contract. While I was with Energy North, I testified before the New Hampshire Public Utilities Commission.

Q. What exhibits are you sponsoring in this proceeding?

A. I am sponsoring the following documents:

1. Exhibit FGE-DBD-1, my prefiled testimony on behalf of FG&E;
2. Exhibit FGE-DBD-2, FG&E's current Tennessee Gas Pipeline ("TGP") capacity contracts and storage contract;
3. Exhibit FGE-DBD-3, a summary of FG&E's current TGP Capacity by Zone and leg, storage capacity, associated renewal decisions, and the process and timetable;

4. Exhibit FGE-DBD-4, FG&E's 2000 Integrated Gas Resource Plan ("Supply Plan");
5. Exhibit FGE-DBD-5, FG&E's load duration curve showing utilization of long-haul capacity;
6. Exhibit FGE-DBD-6, FG&E's Delivered Cost Analysis for the 1068 Dth restructuring of FG&E long-haul Contract 2916 (534 Dth) and long-haul Contract 2915 (534 Dth);
7. Exhibit FGE-DBD-7, FG&E's SENDOUT® Model summary of the proposed capacity restructuring and Model summary of renewing the capacity as is;
8. Exhibit FGE-DBD-8, charts providing a graphical representation of FG&E TGP contract renewal durations; and
9. Exhibit FGE-DBD-9, marketer notification of contract renewals and marketer notification of annual meeting.

Also attached to my testimony as Appendix A is a copy of <u>Fitchburg Gas and Electric Light Co</u>., D.T.E. 00-42 (2001), the Department's Order approving FG&E's current Supply Plan.

Q. What is the purpose of your testimony today?

A. The purpose of my testimony is to support FG&E's request for Department approval of the Company's plans to restructure certain capacity contracts.

Five of FG&E's TGP capacity contracts terminate on January 31, 2004 and the remaining three contacts terminate on March 31, 2004. FG&E's storage contract with TGP also terminates on March 31, 2004. FG&E is required to provide renewal notification one year prior to the termination dates for the TGP contracts. FG&E has asked me to describe for the Department the decision making process for analyzing the restructuring of these contracts, the evaluative process that preceded these decisions, and the timetable for implementing the decisions. I will also explain why FG&E's restructuring decisions are consistent with the portfolio objectives established in FG&E's Supply Plan (Exh. FGE-DBD-4) as approved without change in D.T.E. 00-42, on January 12, 2001. See Appendix A.

Q. Is FG&E requesting in this proceeding approval of executed contracts that the Company has entered into as a result of the restructuring process?

A. FG&E requests Department approval to implement its plan to restructure its capacity contracts and enter into related contractual commitments. On January 31, 2003, FG&E faces the first "implementation date," when FG&E must notify TGP of its decision regarding the renewal of those TGP contracts terminating on January 31, 2004. Prior to that date, as discussed below, FG&E plans to bid for 534 Dth of Zone 6 capacity and, if successful, will reduce the capacity associated with TGP Contract No. 2916 by that amount. This will be done during the renewal notification process with TGP on January 31, 2003. FG&E realizes that the regulatory review process regarding these decisions will not be complete in this time frame; however, FG&E must continue with the implementation of these decisions in order to maintain control of the design of FG&E's resource portfolio.

Q. Why doesn't FG&E wait until the contractual commitments resulting from the restructuring process are complete to file the contracts with the Department for approval?

A. The Company makes this filing at this time in an attempt to balance the Department's requirements for approval of the capacity contracts and the TGP procedures for requesting capacity renewals, which do not provide for an interim period in which to accommodate the Department's review. The Department has directed Massachusetts LDCs to seek approval for supply, capacity and storage contracts under G.L. c. 164, § 94A. This statute requires gas companies to either seek approval to enter into a contract or to include in the contract a provision subjecting the price to be paid to review and determination by the Department. See Keyspan Energy Delivery New England, D.T.E. 02-18, p. 11 (2002). FG&E, in its request for renewals, requested that TGP allow FG&E to include provisions providing for prior or subsequent review by the Department, consistent with G.L. c. 164, § 94A. However, TGP informed FG&E that if such a provision accompanied a renewal, the renewal would be considered invalid and dismissed. If FG&E took no further action, TGP would determine that the Company did not act on its renewal option. This leaves FG&E with no other alternative than to file the restructuring plan for approval prior to entering into the contracts.

Q. If TGP makes a determination that a company has not acted on its renewal option for an existing contract through submission of a valid request, what is the consequence?

A. TGP can either terminate the contract or automatically renew the contract at maximum ("max") rates for a period of up to five years. FG&E obviously cannot accept this loss of control of the design of the portfolio. FG&E has an obligation to its customers to maintain a reliable and flexible best-cost resource portfolio and must maintain control of the decisions that determine the design of the portfolio.

Q. When is the first deadline that FG&E faces regarding the restructuring of the TGP capacity contracts?

A. The first deadline is expected to be in mid January of 2003. FG&E has requested that TGP hold an open season for the Zone 6-to-Zone 6 capacity from Dracut to FG&E's city gate. If TGP determines that it has Zone 6-to-Zone 6 capacity available and holds an open season, the Company must decide if it will submit a binding bid for the capacity that is available. Also by January 31, 2003, as discussed previously, FG&E must notify TGP of its decision to renew five of its current contracts.

Q. Have you provided an Exhibit that summarizes the timetable and decisions resulting from FG&E's restructuring process?

A. Yes. Exhibit FGE-DBD-3 provides a summary of FG&E's current TGP capacity by zone, Maximum Daily Quantity ("MDQ"), associated renewal decisions, and the process and timetable.

Q. Is FG&E facing a termination date with regard to its TGP storage contract?

A. Yes. As shown on Exhibit FGE-DBD-3, the TGP storage contract terminates on March 31, 2004. FG&E has decided to renew the storage contract to March 31, 2008.

Q. What is FG&E's goal in restructuring the TGP capacity contracts?

A. FG&E's goal is to continue to maintain a flexible and reliable, best-cost system as described in the Resource Planning Guidelines that are included as part of the Company's Supply Plan. See Exhibit FGE-DBD-4. To ensure the reliability of FG&E's system, the Company proposes to maintain its current level of city gate delivery at 14,057 Dth through March of 2006. At that time, FG&E will have the sole option to reduce or renew the proposed MDQ for Contract No. 2915. The 14,057 Dths of MDQ represents the pipeline capacity available to the Company by TGP, which conforms to FG&E's most recently-approved Supply Plan. FG&E

also proposes to take advantage of renewal options available to FG&E under existing capacity contracts while transferring small increments of long-haul capacity to short-haul capacity where appropriate to improve the economics, diversity and flexibility of the portfolio.

Q. Does FG&E have the ability to renew the TGP capacity contracts for a term of its choosing?

A. Yes, in most cases. Where specific renewal options remain, FG&E can renew for a term of its choosing. Exhibit FGE-DBD-3 details the term renewal options available to the Company. The options range from one to two flexible term renewals, to a Right of First Refusal option on Contract No. 38927. FG&E's goal is to renew the contracts for staggered periods of two, three and four years while awaiting further guidance from the Department as to Massachusetts LDCs' obligations to continue to plan for and procure necessary upstream capacity to serve all firm customers. Contracts with more than one renewal can be extended for shorter terms, but, where a contract has only one remaining renewal option, FG&E plans to renew the contract through March of 2008 in order to take maximum advantage of the renewal option. By renewing capacity for this duration, in combination with shorter durations for other contracts coming up for renewal, FG&E will be able to diversify the capacity contract termination dates. It is also FG&E's expectation that this approach will provide time for further development of competition in the natural gas industry in Massachusetts without requiring FG&E's customers to bear the risks of committing to capacity which may not be required in the future. Exhibit FGE-DBD-8 provides a graphical representation of the flexibility of FG&E's planned contract renewal durations.

Q. Does FG&E have renewal options remaining for all existing TGP capacity contracts?

A. Yes. With the exception of TGP Contract No. 38927, FG&E has either one or two renewal options remaining on all of the contracts. Contract No. 38927 terminates on January 31, 2004 and FG&E has a right of first refusal for the 550 Dth of Zone 6 capacity associated with this contract. Prior to termination of the contract, TGP will hold an open season for the capacity and FG&E will have the right to match the winning bid and bid term. FG&E's goal is to retain this contract and extend the term of the contract to March 31, 2007, although it is possible that FG&E may have to match a longer-term bid to retain this capacity.

Q. Has FG&E decided to renew all existing TGP transportation contracts with remaining renewal options?

A. Yes. FG&E has decided to renew all of the existing transportation contracts. While doing so, FG&E proposes to exercise its contractual right to reduce the MDQ on two of its long-haul contracts; Contract Nos. 2916 and 2915. FG&E

plans to reduce each of these contracts that bring gas up from the Gulf coast area by 534 Dth and acquire two new short-haul contracts with 534 Dth of capacity, which will move Sable Island gas from Dracut to FG&E's city gate.

Q. Please explain the process that FG&E will undertake to implement these reductions and transfers to Zone 6.

A. TGP has informed FG&E that the primary TGP pipeline moving gas east is fully subscribed in New England. TGP has also informed FG&E that the pipeline lateral that delivers gas to the Company's city gate currently is fully subscribed. However, on January 15, 2003, when Contract No. 252 is terminated, there will be 534 Dths of pipeline capacity available on the FG&E lateral. FG&E plans to use a two-phase restructuring process that utilizes this available capacity to restructure the Company's portfolio on a limited basis. This plan provides an opportunity to restructure the portfolio while minimizing the risk of losing capacity to other parties, or over-contracting for capacity.

Phase 1 of the Company's process involves FG&E's Contract No. 2916 with TGP, which is scheduled to expire on January 31, 2004. Per TGP's tariff, contract holders are required to notify TGP of their intent to renew, reduce, or terminate a transportation agreement one year prior to the expiration of that agreement. Therefore, FG&E is required to notify TGP of its decision to renew or release

Contract No. 2916 by January 31, 2003. FG&E has submitted a request for 534 Dth of capacity from Dracut to FG&E's city gate, which will become available on FG&E's lateral in January of 2003. This request was submitted to TGP on December 19, 2002, and FG&E expects that the open season for the capacity and determination by TGP of the successful bidder will be known prior to January 31, 2003. Once the outcome of that open season is known, FG&E will notify TGP by January 31, 2003 of the capacity level of Contract No. 2916 to be renewed and the contract term (which FG&E currently anticipates as being 50 months, or through March of 2008). If FG&E is the successful bidder for the Zone 6-to-Zone 6 capacity, it will reduce the capacity on Contract No. 2916 by 534 Dth in its January 31, 2003 renewal notice to TGP. This will result in a second package of 534 Dth of capacity becoming available on FG&E's lateral in February 2004, prior to the termination of Contract No. 2915 on March 31, 2004.

The second phase of our restructuring process will involve Contract No. 2915. Contract No. 2915 with TGP is scheduled to expire on March 31, 2004, and FG&E is required to notify TGP of its decision to renew or release Contract No. 2915 by March 31, 2003. FG&E plans to submit a second request to TGP for 534 Dth of Zone 6 capacity from Dracut to FG&E's city gate in February, 2003. This will be after the renewal and reduction of Contract No 2916, and it is expected that the capacity will be available on the lateral to FG&E's city gate. FG&E

expects that the open season for the capacity and determination by TGP of the successful bidder will be known prior to March 31, 2003. Again, if FG&E is the successful bidder, FG&E will notify TGP by March 31, 2003 that the capacity level of Contract No. 2915 to be renewed will be reduced by 534 Dths and the contract term will extend 24 months, or through March of 2006.

If successful in transferring the capacity to short-haul contracts and reducing these long-haul contracts, FG&E will request that the term of each of these 534 Dth contracts extend through March 31, 2007. FG&E will propose to start the 534 Dth reduction associated with Contract No. 2915 effective April 1, 2004. FG&E will request that the 534 Dth of Zone 6 capacity that replaces this reduction start on December 1, 2004. This will allow FG&E to avoid paying demand charges during the summer of 2004 when the Company anticipates that the capacity would not be fully utilized.

Q. Please explain the contract renewal process for the remainder of the TGP contracts.

A. As shown on Exhibit FGE-DBD-3, the remaining TGP contracts currently have termination dates of either January 31, 2004 or March 31, 2004. FG&E plans to notify TGP on or before the required notice dates of January 31, 2003 and March 31, 2003 of its intent to renew these contracts. Also, as shown on Exhibit

FGE-DBD-3, FG&E proposes to renew all of these contract volumes -- 8,739 Dth through March of 2008, 2,146 Dth renewed through March 2007 and 2,104 Dth renewed through March of 2006. As discussed previously, FG&E has staggered the contract renewal terms to maintain a portfolio of short- and medium-term contracts with staggered, or seasonal, termination dates. This treatment is consistent with the Resource Planning Guidelines in FG&E's Supply Plan. Exhibit FGE-DBD-4. FG&E also proposes this strategy because of the uncertainty of the obligation of Massachusetts LDCs to continue to plan for and secure the necessary capacity to serve all of their firm customers.

Q. How did FG&E approach the decision to reduce Contract Nos. 2916 and 2915 by 534 Dth each and plan for replacing those volumes with capacity in Zone 6?

A. FG&E proposes to release only a relatively small portion of these two long-haul TGP capacity contracts (534 Dth each) in order to improve the economics of FG&E's portfolio. FG&E’s decision-making process takes into consideration what capacity is actually available on TGP, TGP contractual constraints, and a desire to reduce costs and diversify the supply basins from which FG&E receives gas. In order to determine more thoroughly whether it was reasonable to replace the long-haul capacity with short-haul capacity, FG&E initially conducted a load-factor analysis of its current portfolio of long-haul capacity contracts. FG&E has four long haul capacity contracts totaling the 8,234 Dth.

Q. Please explain the results of this analysis.

A. FG&E first developed load duration curves for its system to determine the utilization of FG&E’s TGP long-haul capacity with and without the 1,068 Dth of long-haul capacity. This analysis was performed by using historical Degree Day data and daily sendout forecasts based on previous month’s weather patterns with targeted degree days. The results of this study are provided on Exhibit FGE-DBD-5. As shown on this Exhibit, with the 1,068 Dth reduction in the higher cost long-haul capacity, the load factor for this capacity improves slightly from 39% to 41%.

Q. How was this load factor analysis used in FG&E's decision-making process?

A. Once the Company was able to determine that it could meet its city gate requirements and fill storage with the long-haul capacity which would remain, the Company performed a delivered-cost evaluation for the 1,068 Dth reduction in long-haul capacity which was load-factor sensitive. This analysis is presented on Exhibit FGE-DBD-6.

Q. What was the result of this analysis?

A. This analysis, in spreadsheet format, compared the total cost of delivering gas to FG&E’s city gate from different zones on the Tennessee Gas Pipeline. The spreadsheet compared supply, fuel and commodity charges, as well as the per-unit delivered cost of demand as it fluctuated with capacity utilization. In this analysis, the monthly fixed cost of the long-haul capacity the Company was evaluating was five times greater than the monthly fixed cost of the short-haul Zone 6 capacity. The results of this evaluation indicated that, after offsetting the reduction in fixed costs associated with the reduction in the long-haul contracts with increased supply costs associated with the Zone 6 transportation, the Company could realize a net benefit of approximately $117,000 a year for its customers by reducing its long-haul capacity and replacing it with short-haul capacity.

Q. How did FG&E continue the analysis of the decision relating to the reduction of long haul capacity and replacement with short haul capacity from Dracut?

A. With initial indications that the planned portfolio restructuring plan was sound, the plan was further analyzed with a more detailed econometric model analysis and a determination of the availability of gas supplies at Dracut.

Q. What was the result of the econometric analysis?

A. We used the SENDOUT® Model to evaluate FG&E's restructuring decision. This model evaluates the fixed and variable cost of transportation, supply, storage and peaking supplies needed to meet the specified system demand for the forecast period. The SENDOUT® model generates variable, fixed, total and average costs for each component of the portfolio under review. The SENDOUT® Model calculates, among other things, annual system costs and average costs for serving the system demand.

Q. What are the results of the SENDOUT® analysis?

A. Starting in 2003, the model reduces the amount of storage gas the Company uses to meet its demand, which results in a slight increase in system costs of approximately $60,000 for the first year. Then in 2004 when the contracts are fully restructured, the SENDOUT® Model supports the initial analysis discussed above. By shifting a small portion of long-haul capacity to short-haul capacity, transportation costs and the overall system cost of gas is reduced. As shown on in the system cost section for each year in Exhibit FGE-DBD-7, SENDOUT® indicates that, by restructuring the portfolio as the FG&E proposes (as compared to renewing the current portfolio), system costs would decrease by $270,000 in 2004, $72,560 in 2005 and $221,580 in 2006. These saving more than offset the increased costs of the first year, which increased costs resulted from small timing differences between the two models in the use of storage gas during the 2003 – 2004 winter.

Q. Did you evaluate the availability of gas supply at Dracut?

A. In conversations with natural gas suppliers and industry professionals, FG&E determined that competitive natural gas supplies would be available at Dracut in the future. This is further supported by Maritimes and Northeast's Phase III and IV expansion projects that will increase capacity into New England from 440 MMcf per day to 885 MMcf per day by the fourth quarter of 2005.

Q. Were marketers on the FG&E system notified that the contracts were up for renewal?

A. Yes. FG&E did notify marketers and details of the notification are provided in Exhibit FGE-DBD-9. FG&E posted information on FG&E's website starting in December 2002 and sent a letter in hard copy and electronically on November 7, 2002, notifying marketers of the contract renewal process. Under letter dated November 27, 2002, marketers were invited to a meeting which held in Hampton on December 17, 2002 to discuss the contract renewal process and FG&E's decisions relating to this process. Ultimately, the meeting was cancelled due to lack of planned marketer attendance. At the request of one of the suppliers on FG&E's system, FG&E also scheduled and held a meeting on December 19.

Q. Did FG&E receive any marketer input regarding the restructuring process or the decisions that FG&E made regarding the restructuring of the TGP contracts or the storage contracts?

A. FG&E received comments from suppliers ranging from those who had no comments on the capacity renewal process, to those who thought that FG&E should simply renew the capacity at max rates for at least 5 years. The company who requested the December 19 meeting indicated support for FG&E's plan because it reduces fixed costs.

Q. Do you feel that the proposed plan for restructuring the Company's portfolio is consistent with Resource Planning Guidelines?

A. Yes. The Company has demonstrated that it continues to maintain a reliable and flexible planning process to meet customers' needs. As part of its planning process, FG&E continues to identify opportunities that would allow the Company to maintain a portfolio of long- and short-term resources capable of meeting firm customers' needs in a reliable and best-cost manner. Consistent with the Resource Planning Guidelines, the Company proposes to diversify its natural gas supplies geographically while at the same time limiting its reliance on Canadian supplies and maintaining costs in a competitive range.

Q. Does this conclude your testimony?

A. Yes, it does.

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